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SMOOTH OPERATORS

Relevant for: Indian Economy | Topic: Infrastructure: Railways

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Indian Railways is looking at the prospect of private operators running passenger services on the government-owned network. The Bibek Debroy committee had felt that the rail industry needs to be liberalised by allowing the entry of private operators to provide services.

The idea in the report was to encourage growth and improve services. Recent announcements indicate that IRCTC, currently a fully-owned subsidiary, has been roped in to kick-start the process by operating train services with value-added features. This is just the beginning and plans are to scale up by opening up routes to other players in the near future.

An empowered group has been constituted to expedite this process. For those of us in the rail industry, this is an exciting moment as it opens up the possibility of letting the market work towards better utilisation of the network, while improving services for passengers.

In 1991, the European Commission (EC) decided to open up the rail market. The Nineties were when it became fashionable to vertically separate the network industries (gas, telecom, electricity and railways). This separation was widely acknowledged as a way of introducing competition in the provision of services. Until then, these network industries were considered natural monopolies and railways were typically state owned.

The new institutional framework entailed infrastructure remaining a monopoly while there would be a market of service providers. The EC issued a directive imposing an accounting separation between transport services and infrastructure management. Some countries went in for clear separation with separate organisations while others went in for the softer option of separate accounting.

The first question that this poses in the Indian context is whether such separation between infrastructure and operations is a prerequisite for introducing private operations. To answer this question, we need to understand more about the new market that will open up.

The argument for separation stems from the need to move an internal transaction to the market. The EC directive provided a solution whereby even if the organisation continues to be vertically integrated, one could make the transaction to partially mimic the market if there was an accounting separation between services and infrastructure.

Then there could be a price associated with the transaction between the two distinct units of accounting with separate cost calculations. In order to understand the importance of separation, we need to look more closely at what is being transacted.

The three basic elements of the market for train operations are: One, what the network owner sells to the private operator; two, how the price is determined for this transaction, and three, the terms of sale, that is, the contract design. Our focus is on the first element wherein the network owner sells a train path to the operator.

When a toll road is opened, we as motorists merely drive up to the gate, pay the toll and use the infrastructure. Opening up the railway network does not mean anyone can simply show up at the terminal with a locomotive and coaches and run it on the rail network by paying a fee. The train operator is providing a service to passengers and, therefore, needs to commit to a time schedule for passengers to board.

More importantly, safe railway operations require the discipline of central control of train movements and movements strictly regulated by signals demarcating sections and stations. A train path, therefore, has time and space attributes and gives the operator scheduled access to rail tracks which are to be used for running on sections, dwelling at stations and stabling at terminals.

In a vertically integrated railway, based on the assessment of demand by the commercial department, the operations department checks for the availability of a path and schedules a service along that path. Arranging for coaches, locomotives and crew to run the train are part of the solution but not important for this discussion. In the case of a private operator, one can imagine that the demand for a service will come from the operator and thereafter a similar solution is worked out.

It is here we must note that even the European Commission has not changed the train path allocation procedure and it remains the same as it was for the monopoly industry. While there is competition amongst train operating companies in Europe, there is not yet a market for train paths. Paths are allocated administratively based on the train service priority criteria that are well established.

Given the fact that despite nearly three decades of opening up of the rail sector in Europe, market forces are not determining the allocation of paths, it can safely be argued that the separation between infrastructure and operations is not a pre-requisite for this transaction of a train path.

We can then conclude that competition in train services can be introduced by allowing private train operators to participate and that separation of infrastructure management from transportation services is not essential to bring in this competition.

Should Indian Railways attempt a quantum jump and move towards a market-oriented allocation of train paths? On congested routes, can we allow market forces to resolve conflicts between train paths leading to an efficient outcome? These are some of the interesting issues that arise as we move along this path of opening up operations.

Could this be an opportunity to alter train scheduling in a way that leads to smoother operations across the length and breadth of the network, coast to coast?

The writer is a senior officer in the Indian Railways. Views are personal

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